

**Western Massachusetts Electric Company
Transition Cost Reconciliation
Carrying Cost Calculation**

WMECO Docket No. DTE 05-10
Information Request AG-01
Dated: 05/05/05
Q-AG-1-004, Page 2 of 3

		Beginning Balance	Ending Balance	Average	Cost of Capital	Pre Tax Carrying Cost	After Tax Carrying Cost
<u>1998 Under Recovery</u>	3/31/98 - 12/31/98	-	(4,916)	(2,048)	12.11%	(248)	(149)
	1999	(5,065)	(5,065)	(5,065)	12.61%	(639)	(383)
	2000	(5,448)	(5,448)	(5,448)	13.47%	(734)	(439)
	2001	(5,887)	(5,887)	(5,887)	15.00%	(883)	(529)
	2002	(6,417)	(6,417)	(6,417)	15.05%	(966)	(579)
	2003	(6,996)	(6,996)	(6,996)	14.15%	(990)	(594)
	2004	(7,590)	(7,590)	(7,590)	12.85%	(975)	(585)

		Beginning Balance	Ending Balance	Average	Cost of Capital	Pre Tax Carrying Cost	After Tax Carrying Cost
<u>1999 Over Recovery</u>	3/31/98 - 12/31/98	-	-	-	12.11%	-	-
	1999	-	1,062	531	12.61%	67	40
	2000	1,102	1,102	1,102	13.47%	148	89
	2001	1,191	1,191	1,191	15.00%	179	107
	2002	1,298	1,298	1,298	15.05%	195	117
	2003	1,415	1,415	1,415	14.15%	200	120
	2004	1,535	1,535	1,535	12.85%	197	118

		Beginning Balance	Ending Balance	Average	Cost of Capital	Pre Tax Carrying Cost	After Tax Carrying Cost
<u>2000 Under Recovery</u>	3/31/98 - 12/31/98	-	-	-	12.11%	-	-
	1999	-	-	-	12.61%	-	-
	2000	-	(773)	(387)	13.47%	(52)	(31)
	2001	(804)	(804)	(804)	15.00%	(121)	(72)
	2002	(876)	(876)	(876)	15.05%	(132)	(79)
	2003	(956)	(956)	(956)	14.15%	(135)	(81)
	2004	(1,037)	(1,037)	(1,037)	12.85%	(133)	(80)

		Beginning Balance	Ending Balance	Average	Cost of Capital	Pre Tax Carrying Cost	After Tax Carrying Cost
<u>2001 Under Recovery</u>	3/31/98 - 12/31/98	-	-	-	12.11%	-	-
	1999	-	-	-	12.61%	-	-
	2000	-	-	-	13.47%	-	-
	2001	-	(500)	(250)	15.00%	(38)	(22)
	2002	(522)	(522)	(522)	15.05%	(79)	(47)
	2003	(570)	(570)	(570)	14.15%	(81)	(48)
	2004	(618)	(618)	(618)	12.85%	(79)	(48)

		Beginning Balance	Ending Balance	Average	Cost of Capital	Pre Tax Carrying Cost	After Tax Carrying Cost
<u>2002 Over Recovery</u>	3/31/98 - 12/31/98	-	-	-	12.11%	-	-
	1999	-	-	-	12.61%	-	-
	2000	-	-	-	13.47%	-	-
	2001	-	-	-	15.00%	-	-
	2002	-	24,897	12,449	15.05%	1,873	1,124
	2003	26,021	26,021	26,021	14.15%	3,682	2,208
	2004	28,229	28,229	28,229	12.85%	3,627	2,176

**Western Massachusetts Electric Company
Transition Cost Reconciliation
Carrying Cost Calculation**

2003 Over Recovery

	Beginning Balance	Ending Balance	Average	Cost of Capital	Pre Tax Carrying Cost	After Tax Carrying Cost
3/31/98 - 12/31/98	-	-	-	12.11%	-	-
1999	-	-	-	12.61%	-	-
2000	-	-	-	13.47%	-	-
2001	-	-	-	15.00%	-	-
2002	-	-	-	15.05%	-	-
2003	-	26,576	13,288	14.15%	1,880	1,128
2004	27,704	27,704	27,704	12.85%	3,560	2,135

2004 Under Recovery

	Beginning Balance	Ending Balance	Average	Cost of Capital	Pre Tax Carrying Cost	After Tax Carrying Cost
3/31/98 - 12/31/98	-	-	-	12.11%	-	-
1999	-	-	-	12.61%	-	-
2000	-	-	-	13.47%	-	-
2001	-	-	-	15.00%	-	-
2002	-	-	-	15.05%	-	-
2003	-	-	-	14.15%	-	-
2004	(1,872)	(1,872)	(1,872)	12.85%	(241)	(144)

1998 Fuel Charge

	Beginning Balance	Ending Balance	Average	Cost of Capital	Pre Tax Carrying Cost	After Tax Carrying Cost
3/31/98 - 12/31/98	-	-	-	12.11%	-	-
1999	-	226	28	12.61%	4	2
2000	228	228	228	13.47%	31	18
2001	247	247	247	15.00%	37	22
2002	269	269	269	15.05%	40	24
2003	293	293	293	14.15%	41	25
2004	318	318	318	12.85%	41	24

DTE 02-20 Settlement

	Beginning Balance	Ending Balance	Average	Cost of Capital	Pre Tax Carrying Cost	After Tax Carrying Cost
3/31/98 - 12/31/98	-	-	-	12.11%	-	-
1999	-	-	-	12.61%	-	-
2000	-	-	-	13.47%	-	-
2001	7,400	7,400	7,400	15.00%	1,110	665
2002	8,065	8,065	8,065	15.05%	1,214	728
2003	8,794	8,794	8,794	14.15%	1,244	746
2004	9,540	9,540	9,540	12.85%	1,226	735

DTE 03-34 Application of 2002 Over-recovery in 2003

	Beginning Balance	Ending Balance	Average	Cost of Capital	Pre Tax Carrying Cost	After Tax Carrying Cost
3/31/98 - 12/31/98	-	-	-	12.11%	-	-
1999	-	-	-	12.61%	-	-
2000	-	-	-	13.47%	-	-
2001	-	-	-	15.00%	-	-
2002	-	-	-	15.05%	-	-
2003	(7,090)	(7,090)	(7,090)	14.15%	(1,003)	(602)
2004	(7,692)	(7,692)	(7,692)	12.85%	(988)	(593)

<u>Totals</u>				
1998 and 1999			(816)	(490)
2000			(607)	(363)
2001			284	171
2002			2,147	1,288
2003			4,839	2,903
2004			6,235	3,740
			<u>12,082</u>	<u>7,248</u> *

* Difference due to rounding

Western Massachusetts Electric Company
Summary of Transition Charges
Amortization of Generation Related Investment and Regulatory Assets

2003	<u>1/1 - 12/31</u>	<u>Reference</u>
Generation Related Regulatory Assets:		
DOE D&D	675	Exhibit MJM-3, page 6
Deferred Nuclear Outage	-	"
Non MP3 Debt AFUDC	-	"
ITC Pre 1971	-	"
FAS 109	4,698	"
FAS 106	672	"
ITC Post 1971	-	"
Unrecovered Prior Spent Nuclear Fuel	196	"
Subtotal	<u>6,241</u>	"
MP1 Shutdown:		
Unrecovered Plant Balance	3,975	Exhibit MJM-3, page 6A
Materials and Supplies	283	"
Final core	978	"
Subtotal	<u>5,236</u>	"
Total	<u><u>11,477</u></u> *	

* Difference Due to Rounding

Western Massachusetts Electric Company
Summary of Transition Charges
Amortization of Generation Related Investment and Regulatory Assets

2004	<u>1/1 - 12/31</u>	<u>Reference</u>
Generation Related Regulatory Assets:		
DOE D&D	670	Exhibit MJM-3, page 6
Deferred Nuclear Outage	-	"
Non MP3 Debt AFUDC	-	"
ITC Pre 1971	-	"
FAS 109	4,698	"
FAS 106	672	"
ITC Post 1971	-	"
Unrecovered Prior Spent Nuclear Fuel	<u>196</u>	"
Subtotal	<u>6,236</u>	"
MP1 Shutdown:		
Unrecovered Plant Balance	3,975	Exhibit MJM-3, page 6A
Materials and Supplies	283	"
Final core	<u>978</u>	"
Subtotal	<u>5,236</u>	"
Total	<u><u>11,472</u></u>	

Western Massachusetts Electric Company
Estimated Net Earnings Impact of Refinancing
(\$ Thousands)

		<u>Reference</u>
1		
2		
3		
4		
5		
6		
7	Change in TC Operating Income	\$ 4,500 Page 5 of 7
8		
9	Less: Incremental LTD Interest Expense	1,793 Page 3 of 7
10		
11	Plus: Decrease In STD Interest Expense	- Page 4 of 7
12		
13	Net Earnings Impact	2,708
14		
15	Proposed Sharing	<u>50%</u>
16		
17	Customer Portion	1,354
18		
19	Revenue Requirement Conversion Factor	<u>1.64541341</u>
20		
21	Customer Portion - Revenue Requirement	<u>\$ 2,228</u>
22		
23		
24		
25		
26		
27		

Western Massachusetts Electric Company
Incremental Long Term Debt Interest Expense Associated With Refinancing
(\$ Thousands)

New Debt Issuance (a)	\$ 50,000
Estimated Interest Rate	<u>5.90%</u>
Annual Interest Expense	2,950
Less: Income Taxes @ 39.225%	<u>1,157</u>
Net Incremental LTD Interest Expense	<u>\$ 1,793</u>

Western Massachusetts Electric Company
Decrease In Short Term Debt Interest Expense
(\$ Thousands)

Short Term Debt To Be Refinanced

\$ -

Estimated Interest Rate

0.00%

Annual Interest Expense

-

Less: Income Taxes @ 38.4097%

-

Net Decrease In STD Interest Expense

\$ -

Western Massachusetts Electric Company
Transition Charge Income Statement - 12/31/04
(\$ Thousands)

		(a) Attachment 1 2004 Actual	(b) Remove PSNF From TC	(a) + (b) = (c) Actual Net of PSNF	(d) Recalibrate Cost of Capital	(c) + (d) = (e) Revised Recon.
Revenues:						
Retail Revenues	p. 1	\$ 33,545	\$ -	\$ 33,545	\$ -	\$ 33,545
Expenses:						
Regulatory Assets:						
- DOE D&D	p. 6	670		670		670
- FAS 109	p. 6	4,698		4,698		4,698
- FAS 106	p. 6	672		672		672
- Unrecovered Prior Spent Nuclear Fuel	p. 6	196		196		196
- MP1 Shutdown	p. 6A	5,236		5,236		5,236
- Unrecovered MP2	p. 11	-		-		-
Total Regulatory Assets		11,472	-	11,472	-	11,472
Securitization Payments	p. 2	19,139		19,139		19,139
Mitigation Incentive - Plant Divestitures	p. 2	989		989		989
Carrying Charge on Working capital	p. 2	337		337		337
Nuclear Decommissioning	p. 3	2,407		2,407		2,407
Power Contract Obligations	p. 3	8,870		8,870		8,870
Power Contracts - Incentive Mechanism	p. 3	361		361		361
SOS & Default Service Underrecovery	p. 3	5,389		5,389		5,389
Employee Severance and Retraining	p. 3	-		-		-
PBR for Nuclear Units	p. 3	-		-		-
Interest on Prior Spent Nuclear Fuel	p. 3	530	(530)	-		-
FAS 106	p. 2	295		295		295
Income Taxes	plug	(4,394)	2,054	(2,340)	341	(1,998)
TC Deferral, excluding carrying costs	p. 1	(2,699)	(5,798)	(8,497)	(568)	(9,065)
Total Expenses		42,696	(4,274)	38,423	(227)	38,196
Operating Income		\$ (9,151)	\$ 4,274	\$ (4,878)	\$ 227	\$ (4,651)
Average Rate Base	p. 12 & 12B →	(103,275)	48,229 ← p. 11	(55,046)	(55,046)	(55,046)
Rate of Return		8.86%	8.86%	8.86%	-0.41%	8.45%

Notes:

- Column (a) - Based on Attachment 1 which is the 2004 transition charge reconciliation filed in DTE 05-10 adjusted to include the PSNF credit.
- Column (b) - PSNF interest accrual and return on average PSNF rate base balance based on Attachment 1
- Column (d) - recalibration of cost of capital as it impacts the return on rate base; refer to page 6 of 6 for cost of capital.
- Amounts may not add due to rounding.

Western Massachusetts Electric Company
Average Cost of Capital
(\$ Thousands)

Average Cost of Capital - 2004 (a)

	Amount	Ratio	Cost Rates	Weighted Cost	Gross Rev. Conversion Factor	After Tax Weighted Costs
Capital Structure						
LTD	106,735	40.13%	5.67%	2.28%		2.28%
Preferred	-	0.00%	0.00%	0.00%	1.6454	0.00%
Common Equity	159,244	59.87%	11.00%	6.59%	1.6454	10.84%
	265,979	100.00%		8.86%		13.11%
Cost Rates						
LTD		5.67%				
Preferred		0.00%				
Common Equity		11.00%				
Total Weighted Cost Rates			8.86%			
Reimbursement for taxes on equity component			4.25%			
Rate of Return on Capital			13.11%			

Cost of Capital Assuming PSNF Refinancing (b)

	Amount	Ratio	Cost Rates	Weighted Cost	Gross Rev. Conversion Factor	After Tax Weighted Costs
Capital Structure						
LTD	\$ 156,125	48.87%	5.78%	2.82%		2.82%
Preferred		0.00%	0.00%	0.00%	1.6454	0.00%
Common Equity	163,349	51.13%	11.00%	5.62%	1.6454	9.25%
	\$ 319,474	100.00%		8.45%		12.08%
Cost Rates						
LTD		5.78%				
Preferred		0.00%				
Common Equity		11.00%				
Total Weighted Cost Rates			8.45%			
Reimbursement for taxes on equity component			3.63%			
Rate of Return on Capital			12.08%			

Notes:

(a) - Agrees to 2004 transition charge reconciliation to be filed in Docket D.T.E. 05-10

(b) - Assumes issuance of \$50.0 million of long term debt at 5.90%. 10/1/04 PSNF obligation (#47.7474 mil plus issuance

- Amounts may not add due to rounding.